

**Survey Process for Fiscal Year 2005 - 2006**  
**Annual Compensation Survey**  
July 2004



## **General Compensation Policy Statement**

It is the policy of the State of Colorado to provide competitive total compensation to employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent workforce. Total compensation includes, but is not limited to, salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave.

By law, most matters related to maintaining prevailing compensation for the state personnel system, including the annual compensation survey, recommendations to the General Assembly, and rulemaking for certain compensation practices are under the authority of the State Personnel Director (Director). The Director has delegated certain authorities to the Division of Human Resources (Division) in the Department of Personnel and Administration (Department). Such authority includes establishing technically and professionally sound survey methodologies, conducting surveys, analyzing data, and reporting survey findings. This document describes the methodologies and process used to conduct the annual compensation survey.

## **Purpose of the Annual Compensation Survey**

In order to maximize the investment made in state employees, the annual compensation survey is conducted as part of an effort to maintain an integrated and prevailing compensation package. The annual compensation survey focuses primarily on the three major components of total compensation that may require increased dollars each year. These components are base salaries, the employer contribution to group benefit plans, and performance awards. Other items (such as disability insurance, retirement, paid leave, and premium pay) are also periodically surveyed to monitor any changes in market trends. The result of the annual compensation survey is a published report that reflects all adjustments necessary to maintain prevailing salary structures, employer contribution to group benefit plans, and performance awards for the upcoming fiscal year.

## **Meet and Confer**

Before the annual compensation survey process begins, the proposed survey process is published for comment. In order to maintain stakeholders' understanding and confidence in the selection of surveys, the Division meets and confers with management, employee representatives, employees, and the Total Compensation Advisory Council. The Department communicates to the workforce through open meetings, the *Stateline* newsletter, the Department's website, and other forms of correspondence. After reviewing and considering stakeholder input on the survey process and the surveys to be used, the Director makes the final decision regarding the process to conduct the annual compensation survey.

Two meet and confer sessions were held. All of the discussion and comments were informational in nature and no changes were suggested to the survey process. Division staff added the other interest items in order to fulfill the Department's agreement on the audit recommendations from both the 2003 Employee Benefits and the Total Compensation Survey Performance audits.

### **Annual Compensation Survey Process**

The survey process begins with the collection of data from the identified labor market. The primary survey market is Colorado. As needed, regional and national data may be considered as additional information for decision-making purposes. The labor market must include a fair sample of public and private employers throughout the State of Colorado (this includes areas outside the Denver metropolitan area). This data is obtained through a collection of surveys, which may be published by public or private organizations or direct surveys conducted by the Division. The Division reviews the results of the surveys in order to report market findings. The Director then makes recommendations on any required increases and estimated costs regarding the three major components of total compensation. The review of any survey, the survey report, and recommendations regarding total compensation practices are not subject to appeal.

The following criteria are used to select published surveys for collection of market data:

- (1) The survey provides adequate descriptions of work to match to state classes;
- (2) The survey provides data necessary for survey analyses;
- (3) The survey adequately explains its methodologies in sample selection and data analyses;
- (4) The survey reports the effective date for pay rates or benefit contribution levels;
- (5) The survey includes appropriate labor markets for the State of Colorado;
- (6) The survey is available for the Division to examine, verify, or purchase;
- (7) The survey provides substantial value in increasing the number of job matches for the state or labor markets appropriate for the state; or
- (8) The survey is a published survey conducted by a third party for whom regular publication of professional compensation surveys for use by others is one of the major enterprises of the organization.

The Division also designs and conducts direct surveys when necessary. Such surveys are conducted to supplement data being reported in a published survey. For example, data appears to be insufficient or incomplete so additional information is needed. Direct surveys are also conducted to collect data not available in a published survey or when a published survey does not meet the criteria listed above.

The results of the annual compensation survey are contained in a report published on August 1. The Director also requests funding for the estimated increased cost for, and recommend distribution between, the two major compensation components. The General Assembly appropriates funds for salaries including performance awards and employer contribution to group benefit plans. The effective dates are July 1 for any salary adjustments and performance awards and January 1 for any change in employer contribution to group benefit plans unless the General Assembly, acting by bill, establishes different dates for these changes. It should be noted that HB04-1449, effective August 4, 2004, authorizes the Director to change the effective date for benefits so potentially all compensation-related decisions could be effective on the same date.

### **Rate Projection**

Not all survey publications or their contributing organizations utilize the same effective date for their pay rates. In order for all survey data to have a common effective date (i.e., July 1), the

Division projects salary survey data by applying the most recent annual Employment Cost Index – Wages and Salary for all Civilian Workers (ECI). The ECI is published quarterly by the U.S. Department of Labor, Bureau of Labor Statistics (BLS) and reflects the change in employment costs for civilian workers. This projection is an estimate of future market pay based on economic trends. For the annual compensation survey, the ECI is used to project all survey data to July 1 (state's effective date). This projection method ensures that the state does not use "old" data for the market comparison.

As the Director is required to report the survey findings and make the recommendations to the Governor and the General Assembly by August 1, the ECI used in the projection is the previous index issued in April. This economic index is at least 15 months away from the survey implementation date (July) of the following year. In order to reflect the economy as accurately as possible and to include some major survey publications that are available to the Department toward the end of the calendar year, the Division updates the survey findings and submits the update to the Director by December 1. The Director may use the updated findings to revise the survey recommendations, which will be published and communicated to the workforce.

### **Occupational Group Survey Recommendations**

The state personnel system categorizes similar jobs into nine occupational groups. All state jobs fall into one of the nine occupational groups. An overall average pay structure change or movement obtained from third-party surveys or direct surveys for each occupational group is measured. The pay structure midpoint rates, which are the central points in pay ranges, are the measurement points for such analyses. Within a given market job, the change in the midpoint of the pay range for the job from year to year is measured. The overall average change for the midpoints of the pay ranges of all jobs represents the salary survey recommendation for each occupational group. The salary survey recommendations are used to adjust the pay ranges for all classes within an occupational group and the base salaries of all individual employees within a pay range as set by Director's Administrative Procedures. Because adequate published data does not exist for the Teacher group and the Medical group, the Division applies the occupational survey recommendation for the Health Care Services (HCS) group to the Medical group, and the Professional Services (PS) group for the Teacher group. The annual compensation survey report publishes individual occupational group survey recommendations.

### *Trooper Subgroup of Enforcement & Protective Services (EPS)*

C.R.S. 24-50-104 (1)(a)(III)(A) requires DPA to use consistent methodologies to determine and maintain prevailing compensation for state Troopers with two exceptions. First, the market is the top three law enforcement agencies within the state having more than 100 commissioned officers and the highest actual average salary. Second, the state provides an average salary adjustment amount to be at least 99% of the actual average salary from this market. To be consistent with the survey methodology applied to all occupational groups, the pay structure adjustment for the Trooper subgroup will be made based on the midpoint rates analysis for the EPS group. In addition, with the authority recently given to the Director in implementing survey recommendations, Trooper actual average salary adjustment amount will be determined based on the actual average salary comparison of the top three jurisdictions while backing out FY03-04 survey adjustment per SB03-273 applied.

### **Individual State Job Comparison**

In addition to the measurement of pay structure adjustment on an occupational group basis, the Division continues to compare the pay structure for individual state classes with the labor market. The comparison is done on the basis of pay range midpoint rate comparison (similar to how it is done for occupational groups as a whole). The Division evaluates the following to determine whether individual class adjustment is necessary to realign state classes externally with the market.

- (1) The magnitude of the difference. Discretion is used in considering all of the factors, but generally, under this factor, a review does not begin until the magnitude is  $\pm 7.5\%$ .
- (2) Stability of the rate difference from one year to the next. Does the difference fluctuate or is it steadily above or below the market?
- (3) Duration of the difference. Has the difference appeared suddenly or been sustained for a number of years?
- (4) Nature of the labor market sample for the survey class, e.g., type of labor market, number and size of firms reported, and comparability with state jobs.
- (5) Historical and market pay relationships that exist between the class and other related classes.
- (6) Documented recruitment and retention difficulties for the survey class.
- (7) Significant market trend differences in pay practices.

If individual class adjustment is warranted for purpose of external alignment with the labor market only, those recommendations are made as part of the base salary analysis rather than be adjusted through system maintenance studies. System maintenance studies may be conducted in a subsequent year when internal alignment (relationship among state classes) needs to be examined and verified with external alignment (market practices). The system maintenance studies that have fiscal impact are included as part of the annual compensation survey report or the subsequent December update.

### **Pay Range**

A pay range is a range of pay rates between two control points: minimum and maximum. Range width is the percentage difference between these two control points. The Division reviews average market minimum and maximum range rates for the occupational groups and assess comparability to the state's ranges. In addition, the Division reviews market practices around pay ranges such as width for different occupations or levels of jobs, progression within a range, and distribution of employees along a range for an occupation. Review of market practices in these areas provides useful information for establishing ranges comparable with the market, as well as policies and procedures for progression within pay ranges.

### **Performance Salary Adjustment**

The Division reviews market practices around performance-based pay (PBP) and bonus systems to evaluate current policies for the state's PBP system, including but not limited to eligibility for performance awards, ratings distribution, and budgeted amount of performance awards.

Typically, both national and Colorado surveys are used for measuring market performance practices. The findings are incorporated into the annual compensation survey report.

### **Employer Contribution Toward Group Benefit Plans**

In the annual compensation survey, the Division reviews market group plans and employers' and employees' contributions to group benefit plans including medical, dental, life and accidental death and dismemberment. The Division conducts a comparison of general benefit plan components before premium contributions are assessed. Once plan coverage components are compared, the Division evaluates the cost of a group plan as well as how employers and employees are sharing the cost. Market premium rates for both Health and Dental plans are projected based on trend information found in the market. Based on the analyses, the Division includes findings in the annual compensation survey report. The Director determines the funding required as part of the overall annual compensation recommendation.

### **Pay plans**

Based on the annual compensation survey, various pay plans and directives are established, and procedures adopted, as required to implement the state's prevailing total compensation philosophy. A pay plan (or compensation plan) is a listing of salary schedules for all occupational groups and job classes, and other applicable premium pays. The pay plan is published prior to the implementation of salary survey adjustments.

### **Survey Process Audit**

To ensure technically and professionally sound survey methodologies and practices, the annual compensation survey is subject to a performance audit. The Office of the State Auditor is responsible for contracting with a private firm to conduct an audit of the annual compensation survey process and application of data and for any direct surveys. These performance audits are conducted on a biennial cycle, with the next audit scheduled to begin around January 1, 2005. An audit report is submitted to the Governor and the General Assembly by June 30 of the year of each audit. Published surveys by public and private organizations or any direct surveys conducted by the Division are confidential and shall not be revealed except to the Office of the State Auditor and the private firm conducting the audit.

### **Current Topics of Interest**

On occasion, the Director is interested in information on total compensation topics that may result in new or revised policy and programs. The information collected and analyzed is typically found in the same third-party survey sources used for other parts of the annual survey process. Depending upon the topic, additional survey sources may be sought to answer questions or examine issues relating to these topics.

These special interest items may be used to support policy decisions on total compensation matters, but may not be a recurring survey item each year. This year, the Director will analyze and report on these four topics: self-funded health care programs of other employers; use of a four-tier rate structure for health/dental plans; changing the benefit plan year to a fiscal year basis; and the eligibility of part-time employees for health care benefits.

Additionally, per the 2003 Annual Total Compensation Survey Performance Audit, the Department agreed to examine turnover data to identify any links to total compensation and to assess the importance that employees place on various components of total compensation. The results of that assessment will also be included in this year's report.